

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3152-01
Bill No.: SB 734
Subject: Employees-Employers; Employment Security; Labor and Industrial Relations
Dept., Unemployment Compensation
Type: Original
Date: January 14, 2004

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| | | | |
| | | | |
| Total Estimated Net Effect on General Revenue Fund | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON STATE FUNDS | | | |
|---|----------------------|----------------------|----------------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| Unemployment Compensation Trust | \$139,929,281 | \$188,062,008 | \$121,476,614 |
| | | | |
| Total Estimated Net Effect on <u>All</u> State Funds | \$139,929,281 | \$188,062,008 | \$121,476,614 |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|----------------------|----------------------|--------------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| Local Government | (\$1,092,641) | (\$1,155,257) | (\$409,246) |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration; Division of Budget and Planning, Division of Accounting,** and **Division of Personnel** assume this proposal would have no impact on their organizations.

Officials from the **Department of Labor and Industrial Relations, Division of Employment Security (DES),** assume this proposal would make changes in the state's employment security law.

Section 288.036 Currently the Taxable Wage Base (TWB) is set at \$7,500 and increases or decreases annually, based upon trust fund balance amounts as of September 30th, less any outstanding federal Title XII advances. The proposal would increase the TWB to \$10,000 in CY 2005, and the cap on the TWB of \$10,500 would be removed.

ASSUMPTION (continued)

Additionally, under current law, when the balance is less than, or equal to, \$300 million the TWB increases by another \$500. Under the proposal, the TWB would increase by \$1,000 when the balance is less than, or equal to, \$500 million.

Similarly, the amount that would trigger a decrease in the TWB would be changed from \$450 million to \$800 million.

- Section 288.038 Currently the Maximum Weekly Benefit Amount (MWBA) is fixed at \$250. This proposal would raise the MWBA to \$255 in 2006 and 2007, and to \$260 in 2008. Language is added that prevents increasing the MWBA during periods of insolvency and until such time that 24 months of solvency has been regained.
- Section 288.040 This section would eliminate the authority of the Director of DES to grant an extended work search waiver when the requesting employer has a base rate of six percent, would add participation in a state-approved drug or alcohol treatment program to the list of exceptions why a claimant cannot be held ineligible because of not actively and earnestly seeking work, and would eliminate compensation for the waiting week.
- Section 288.050 This section would specify that a claimant's maximum benefit amount would be reduced by an amount equal to the number of weeks disqualified multiplied by the employee's weekly benefit amount in addition to existing penalties for findings of work-related misconduct.
- Section 288.060 This section would increase the amount of wages a claimant may earn while claiming unemployment benefits without having his/her benefit amount reduced, from \$20 to the greater of \$20 or twenty (20) percent of his/her weekly benefit amount. This section also contains language making severance and elected official pay countable as wages when calculating a claimant's weekly benefit.

ASSUMPTION (continued)

- Section 288.121 This section would change calculation of positive contribution rate adjustments (CRA). In addition, this section would set the CRA for CY 2005 at 40% and would impose an additional one time 3/10 percent surtax. Finally, this section would create a variable rate surtax to be in effect until such time as contributions to the fund during the 24 month period ending June 30th of the preceding year, exceed benefits paid.
- Section 288.122 This section would changes the calculation of negative contribution rate adjustments (CRA).
- Section 288.290 This section would specify that funds are not to be diverted from the Unemployment Compensation Fund for purposes other than those authorized, and that no other fund shall be established with increased employer taxes that are offset by a reduction of unemployment contributions.

DES estimates benefit reductions included in the proposal as follows:

- Elimination of compensation for waiting week credits (approx. \$23.3 million)
- Increased work-related misconduct penalties (\$8.7 million)
- Making termination, severance and elected official pay countable as wages when calculating a claimant's weekly benefit amount (unknown).

DES estimates that increasing a claimant's weekly earnings without a benefit reduction would be \$2.6 million. That amount does not include the any savings as a result of claimants whose part-time work would result in increased hours or full-time employment. The amounts of these savings are unknown.

Based on 2002 claims data, and considering the proposal would be effective with claims beginning January 2005, DES estimated the decrease in benefits as a result of the provisions listed above:

- \$14,654,772 for the last six months of FY 2005
- \$29,283,120 for FY 2006, and
- \$29,229,741 for FY 2007.

ASSUMPTION (continued)

Included in those amounts is a savings to local government of:

- \$314,198 for the last six months of FY 2005
- \$627,830 for FY 2006, and
- \$626,686 for FY 2007.

DES estimates an increased income to the UCTF of:

- \$125,275,049 for the last six months of FY 2005
- \$158,778,888 FY 2006, and
- \$92,246,873 for FY 2007.

Included in these amounts is a cost to local government for increased contributions of :

- \$1,406,839 for the last six months of FY 2005
- \$1,783,087 for FY 2006, and
- \$1,035,932 for FY 2007.

DES estimates that implementation of these provisions would cause an estimated reduction in interest charges to employers totaling \$4,879,429 in 2005, \$14,059,942 in 2006 and \$22,488,784 in 2007.

The cost for computer programming, reprinting forms and pamphlets due to changes created by the proposal would be absorbed through the normal costs of operations.

Oversight assumes there would eventually be an additional cost to the state for reimbursement of increased benefits paid to former state employees. However, any increased cost to the state would materialize only after solvency as defined in the proposal was achieved, and this proposal would not restore solvency as defined before the end of FY 2007.

| <u>FISCAL IMPACT - State Government</u> | FY 2005 (10 Mo.) | FY 2006 | FY 2007 |
|---|-----------------------------|-----------------------------|-----------------------------|
| UNEMPLOYMENT COMPENSATION TRUST FUND | | | |
| <u>Income</u> - Division of Employment Security | | | |
| Increased contributions | \$125,275,049 | \$158,778,888 | \$92,246,873 |
| <u>Cost Reduction</u> - Division of Employment Security | | | |
| Decreased benefit payments | <u>\$14,654,772</u> | <u>\$29,283,120</u> | <u>\$29,229,741</u> |
| ESTIMATED NET EFFECT ON UNEMPLOYMENT COMPENSATION TRUST FUND | <u>\$139,929,821</u> | <u>\$188,062,008</u> | <u>\$121,476,614</u> |
| <u>FISCAL IMPACT - Local Government</u> | FY 2005 (10 Mo.) | FY 2006 | FY 2007 |
| LOCAL GOVERNMENTS | | | |
| <u>Cost Reduction</u> | | | |
| Decreased benefit payments | \$314,198 | \$627,830 | \$626,686 |
| <u>Cost</u> - Increased contributions | <u>(\$1,406,839)</u> | <u>(\$1,783,087)</u> | <u>(\$1,035,932)</u> |
| ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS | <u>(\$1,092,641)</u> | <u>(\$1,155,257)</u> | <u>(\$409,246)</u> |

FISCAL IMPACT - Small Business

This proposal would affect small businesses as a result of direct changes to their unemployment tax rates, and changes in benefits paid to former employees which in turn affect the businesses' experience ratings.

DESCRIPTION

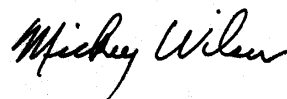
This proposal would revise employment security laws as follows:

- The reduction of weekly benefits for part-time employment would be changed from the earnings over \$20 per week to earnings over 20% of the state maximum weekly benefit amount.
- The Taxable Wage Base and Contribution Rate Adjustment factors used in computing unemployment taxes would be expanded to provide greater flexibility in maintaining the solvency of the Unemployment Compensation Trust Fund.
- The state Maximum Weekly Benefit Amount would be increased when fund solvency has been achieved.
- The method for determining a composite contribution rate for an acquired business would be changed.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Labor and Industrial Relations
Division of Employment Security
Office of Administration
Division of Accounting
Division of Budget and Planning
Division of Personnel



Mickey Wilson, CPA
Director
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